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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000977

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STATE FOR EAP/BCLTV, EB  
BANGKOK FOR FAS  
COMMERCE FOR ITA JEAN KELLY  
TREASURY FOR OASIA JEFF NEIL  
USPACOM FOR FPA

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TAGS: [EAGR](#) [ETRD](#) [PGOV](#) [BM](#)

SUBJECT: FEW EARLY VOLUNTEERS FOR BURMESE RICE TRADE

REF: A. RANGOON 563

[1](#)B. RANGOON 448

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.5 (B,D)

[1](#)1. (C) Summary: With only two or three months remaining before rice harvest time, private traders and agronomists are dubious that the GOB's rice liberalization policy will be a real short term success. Too many uncertainties and holes remain for that to happen. However, all agree that the regime will ensure, by bribery and force, that enough private sector entities take advantage of the policy for it to be deemed a "success." End summary.

Sanctions Impact Minimal

[1](#)2. (SBU) According to a private sector agricultural expert with whom we spoke, the new U.S. remittance and import bans will have little impact on the GOB's new, liberalized rice policy. According to the GOB policy, announced suddenly in late March 2003, the government will end its 40-year monopoly on rice exports as well as its much maligned policy of mandatory advanced procurement from farmers at prices well below market. Instead, according to the still sketchy plan, the private sector will have the freedom to buy and sell, locally and abroad, at whatever price the market will bear. Of course the government will maintain some control, sharing the export revenues and also procuring rice from merchants at cost for domestic need.

[1](#)3. (SBU) Most of the country's rice exports, which are extremely low quality, go to francophone West Africa, either directly or through a third country as a component of some barter arrangement. Thus, it may be easier to shift the currency of the trade from U.S. dollars into euro -- a currency of choice, he asserted, for West Africa. We have heard from other sources that the government intends to allow letters of credit and other trade facilitation to be carried out in other major currencies, but preferably the euro.

Private Sector Dubious

[1](#)4. (SBU) Though the rice scheme seems on course for some success come harvest time in October or November, none of the outstanding questions raised in reftels has been answered, and there remains little incentive for small traders to get involved. The government's policy has not been issued in writing, adding an element of uncertainty for potential rice exporters. Likewise, there is no indication that the regime will set a price floor to guarantee farmers' income.

[1](#)5. (SBU) Though optimistic in theory, small private traders are skeptical about the profitability of getting involved during this inaugural year. For one, the export price of Burmese rice (mostly poor quality) is quite low, but "fair" domestic prices tend to be high because of low yields per acre and high prices of transportation and imported agricultural inputs like fertilizer, diesel fuel, machinery, etc. Also, prospective exporters will have to contend with the government's intended revenue sharing scheme (explained in detail in reftels). Finally, traders complain, the government's proposal to procure, at cost, a to-be-determined amount of rice for domestic consumption will leave profit margins even thinner, and even less predictable.

Guaranteed Success

[1](#)6. (C) Cynical traders and agricultural economists agree that whatever the hurdles, the regime will stack the deck to ensure at least an illusion of success for its new gambit. Already the government's agricultural procurement and trading company, Myanmar Agricultural Produce Trading company (MAPT) is mobilizing its stocks for possible export using cutout or crony private sector firms. It's not unusual for the GOB to pressure a private firm to conduct a money losing, but politically important, transaction in return for some more lucrative contract or concession in another area. Also, one economist reported, the government's rice policy guru, SPDC Secretary Two Lt. General Soe Win, summoned leaders of the

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country's rice and paddy merchants organization and encouraged them to collude to keep a ceiling on domestic procurement prices, to ensure as large an export margin as possible -- at the expense of local farmers.

GOB Deals From the Bottom

17. (SBU) Comment: Until the harvest and export seasons begin in earnest at the end of this year, we'll not be able to comment authoritatively on the new rice strategy's effectiveness. Though we still feel the plan is an important and generally positive move, four months after the its announcement we are less convinced than before that this is the first of many agricultural reforms. Likewise, based on the regime's lackluster efforts to flesh out other recent economic "policies" (such as those to resolve the banking crisis and deal with sanctions), we are dubious that the GOB will make the effort to address the many nagging and expensive, but crucial, details that would aid the policy's ultimate triumph. Instead, we think the regime will typically first try administrative solutions to make sure there is a neat facade of success, no matter the reality. End comment.  
Martinez